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THE SENATE OF CANADA

Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 5

TUESDAY, APRIL 28, 1953

The Honourable A. N. McLEAN, Chairman

WITNESSES

Mr. G. K. Sheils, President, Canadian Manufacturers' Association, Inc.
Mr. W. K. Leach, Chairman, Commercial Intelligence Committee, Canadian Manufacturers' Association, Inc.

APPENDIX B

Breakdown of Sales Dollar for 1950 and 1951 Fiscal Years.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1953

CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(*a*) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(*b*) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate".

74353—1½

MINUTES OF PROCEEDINGS

TUESDAY, April 28, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10:30 a.m.

Present: The Honourable Senators: McLean, Chairman; Bishop, Burchill, Campbell, Crerar, Duffus, Euler, Haig, MacLennan, McDonald, Pirie, Turgeon and Vaillancourt—13.

Consideration of the order of reference of February 26, 1953, was resumed.

The following were heard:

Mr. G. K. Sheils, President, Canadian Manufacturers' Association, Inc.

Mr. W. K. Leach, Chairman, Commercial Intelligence Committee, Canadian Manufacturers' Association, Inc.

A breakdown of the sales dollar for fiscal years 1950 and 1951, filed by Mr. Sheils, was ordered to be printed as Appendix B to these proceedings.

Further consideration of the order of reference was postponed.

At 11:55 a.m. the Committee adjourned until Thursday, April 30, 1953, at 10:30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Tuesday, April 28, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10:30 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable senators, I will call the meeting to order. This is the fifth meeting of the Canadian Trade Relations Committee since reference was made to us of a resolution introduced in the Senate on February 12 and, after considerable debate, was passed, and referred to us on February 26. I do not think we need to read the resolution again as I am sure we are all familiar with it.

We are highly honoured this morning to have with us representatives from the Canadian Manufacturers' Association:

Mr. G. K. Sheils, President; Mr. J. D. Ferguson, Vice-President; Mr. Hugh Crombie, Past President; Mr. W. K. Leach, Chairman, Commercial Intelligence Committee; Mr. H. W. Macdonnell, Manager of Legal Department; Mr. T. M. Kerruish, Manager of Commercial Intelligence Department; Mr. Richard Lang, Assistant Manager of Tariff Department; Mr. W. D. H. Frechette, Assistant Manager of Commercial Intelligence Department; Mr. C. Willis George, Ottawa Representative.

I understand that Mr. Sheils, the President of the Association, is to present a brief on behalf of his group, and this will be followed by a discussion. Would you please come forward, Mr. Sheils?

Mr. G. K. SHEILS, President, Canadian Manufacturers' Association: Mr. Chairman and gentlemen, it is an honour and a privilege for the Canadian Manufacturers' Association to appear before your committee, and we trust that the brief which we have to present will add a little to the knowledge which I know you already have on this very worthwhile subject.

Canada's economy is built so largely on world trade that the greatest importance must be attached to the study of efforts to achieve greater freedom in the international exchange of goods and, at the same time, to reduce our dependence upon it and our consequent vulnerability to its fluctuations. Had it not been for the rising volume of our sales abroad, history would certainly not have brought this country to the degree of industrialization and prosperity which it enjoys today as the world's third largest trading nation. The fact that we, a nation with only two-thirds of one per cent of the world's population, have reached the status of the sixth largest industrial producer in the world, is not only a reflection of our wealth of natural resources but also owes much to the human resources of enterprise, energy and foresight which enabled Canadians to develop wisely, produce efficiently, and to sell successfully beyond the bounds of a limited domestic market.

The advantages of exporting the marginal products of industry are well known but, in Canada's case, it has proved necessary in the past and, indeed, for the foreseeable future, that a large proportion of production should be exported in order to enjoy the advantages of most efficient industrial methods. Canada has developed largely on her ability to produce cheaply the bulk products of farms, fisheries, forests, and mines, and the prosperity of our population

in those fields is heavily dependent upon our ability to sell their products in world markets. Our productive capacity has taken tremendous strides in the last few years and we must remember that much, if not most, of the new industrial development today is for the large-scale production of materials which will have to find external markets if the enterprises are to prosper.

Canadians have been quick to concede that imports are not only necessary and desirable but that imports of goods and services are, in fact, the only real payment which we receive for the products we send abroad. On a per capita basis, Canada is the world's largest importer among the principal trading nations. According to the statistics of the International Monetary Fund, which are quoted in terms of the United States dollar, our imports in the past year were about $309 per capita as compared with $74 for the United States, $194 for the United Kingdom, $105 for France, and $80 for Western Germany.

The principles enunciated in Article 2 of the North Atlantic Treaty are essentially those which Canada has promoted in relation to all free nations—the furthering of peaceful, friendly, and stable conditions of intercourse between nations; assisting efforts to raise living standards of our less fortunate world neighbors; and seeking the elimination of conflict in international economic policies.

No country has been more co-operative than Canada at the post-war trade conferences held in Geneva, Havana, Annecy and Torquay. Canada maintains no exchange restrictions, nor quota restrictions against the importation of goods from other countries. She has taken her international obligations arising out of her membership in such organizations as GATT very seriously, has not taken advantage of any of the escape clauses, and has lived well within the spirit and letter of her undertakings.

Throughout its eighty-two year history, the Canadian Manufacturers' Association has devoted much of its attention and energy to the promotion of Canada's export trade, guided by Article II of its Constitution which provides "The objects of the Association shall be to promote Canadian industries and to further the interests of Canadian manufacturers and exporters, and to render such services and assistance to the members of the Association and to manufacturers and exporters generally, as the Association shall deem advisable from time to time".

As early as the 1890's, many members had become world travellers and had achieved success with the products of Canadian factories in many overseas countries. The Association established its own agents and correspondents in the capitals of many overseas markets and potential markets throughout the world and in 1900 recommended that the Canadian Government appoint a resident trade commissioner in London. Through the promotion of enlightened trade policies and through direct assistance in solving the trade problems of its members, as well as by educating manufacturers in the techniques of export trade by means of its Export Study Clubs, the Association has worked in sympathy with those who believe that an expanding multilateral trade between nations is in the best interests of world peace and human well-being. Its growth has paralleled the growth of industry and trade, and it is estimated that its nearly 7,000 members, in all the ten provinces of Canada, account for 75 to 80 per cent of Canada's manufacturing production. Of these, about 2,000 are engaged in export trade.

Throughout its life, the Association has enjoyed and contributed to the highest terms of friendship and co-operation with the Department of Trade and Commerce. In line with its stated aims, the Association has endeavoured to place the views and suggestions of manufacturers before the Government as, for example, in a submission made in October, 1943, it recommended the

expansion of Canada's Foreign Trade Service abroad, a program of training to make Canadian Trade Commissioners conversant with modern developments in industry, the establishment of area divisions in Ottawa to study and compile up-to-date trade information on Latin America, the British Empire, etc. In later years, recommendations by the Association have been instrumental in setting up the Export Credits Insurance Corporation and the British West Indies Trade Liberalization Plan.

Canadian manufacturers and exporters are particularly fortunate in being served by a Trade Commissioner Service which is second to none in the world, and the Association has had particularly cordial relationships with these officers who have made CMA offices their headquarters for over fifty years. Co-operation in the matter of foreign fairs and exhibitions, trade missions, goodwill cruises, and similar efforts has extended over a long list of important world events, not least of which has been the development of the Canadian International Trade Fair.

The Canadian Trade Index, which was first published by the Association in 1900 to promote the sale of Canadian manufactured products abroad, now has an annual circulation of 14,000 copies and is distributed to potential buyers the world over by the Trade Commissioner Service. In the years since the war, the Association has received over 1,000 visitors from almost every country with which Canada trades and has assisted them in establishing fruitful connections with Canadian manufacturers and exporters. The Association has been represented at important world trade conferences since the war, including those of the General Agreement on Tariffs and Trade, and such organizations as the Inter-American Council of Commerce and Production of which it is a member. This Council includes representatives of all the Latin American Republics. At the Annual Meeting in 1945 with the co-operation of Mr. Winthrop Aldrich, now U.S. Ambassador to the Court of St. James, the Association took the lead in forming the Canadian Section of the International Chamber of Commerce.

Aided by these efforts, Canadian manufacturers, prior to the war, had built valuable markets for a wide variety of products, including many fully-finished consumer goods, in the United Kingdom and other parts of the British Commonwealth and Empire and many other countries. In the post-war period, unfortunately, other countries have been unable or unwilling to match her record in eliminating barriers to the world-wide interchange of goods. Manufacturers now find many of these overseas markets closed to them, and perhaps irretrievably lost, as a result of import restrictions, quotas and prohibitions, particularly in the sterling area and Western Europe.

Some of the effects of import restrictions and the problems they create are perhaps well illustrated by Canada's own experience in this field.

By the end of the war, Canada had built up a substantial dollar reserve. To ease the problems of the war-torn nations of Europe we embarked on a generous program of foreign credits and gifts which, taken together with the tremendous pent-up demand for consumer and capital goods, rapidly exhausted exchange reserves and forced the adoption in November 1947 of import controls and other measures to conserve foreign exchange. The effect of these restrictions, aided by a renewed influx of capital, mainly from the United States, was that exchange reserves again rose to what were considered safe levels and immediate action was taken for their progressive removal which was finally accomplished in 1950.

A survey conducted by the Association in 1949 revealed general agreement that the import control program had been of benefit to the country. Many new products were being made in Canada for the first time; existing manufacturers of many products received protection from foreign competition more effective than any tariff; purchasing agents in all lines of enterprises

throughout the country had to review their sources of supply and buy Canadian products, where formerly they had used imported ones. Despite these benefits and the knowledge that many of them would disappear when the controls were lifted, the Association recognized that these were temporary measures and that their continuance would be inconsistent with Canada's international obligations. The temptation to ask that import controls be prolonged was very great but instead of advocating this course the Association recommended and approved the Government policy of progressive decontrol when the danger point of exchange reserves had passed.

Canada's conduct in international trade relations, including the rapid abandonment of import controls has been exemplary, but there is little doubt that the lack of desire on the part of other countries to follow her lead is in no small part responsible for the world trade difficulties of to-day.

In many other countries import restrictions have been employed, apart from the necessity of exchange conservation, to build up and protect secondary industry and, in these countries, there appears to be little desire for their removal. In the United States, the tariff structure, import quotas and prohibitions and the envolved administration of customs have been designed and used to ensure, in that highly industrialized nation, that American industry is not subjected to serious competition from Canada or from abroad.

The evidence of past years leaves no doubt that further action by Canada to give a larger share of a relatively small domestic market to imports will be totally ineffective in changing these restrictive policies in other countries. Instead, we must look for more positive measures by other countries which will progressively result in greater freedom in the international exchange of goods. The statements issued, following the 1953 Commonwealth Conference, and subsequent talks, cautiously indicate an encouraging change in thinking on these matters, and if their suggestions are carried into action the general problem of world trade may be brought closer to solution. It has been made clear that the proposals envisage the seeking of full participation and co-operation of the countries of Western Europe.

Perhaps it may be said that the effects of these import curbs are being over emphasized since Canadian exports have yearly reached new peaks, but this is to ignore the change which has taken place in the nature and direction of our exports. The ever-increasing demand in the United States for our raw and semi-processed products is of great importance to our basic industries, but, unfortunately, Canadian manufacturers of consumer goods and other fully-finished articles have not found the United States a substitute for markets which they previously enjoyed in the United Kingdom, the British Commonwealth and Empire and in some foreign countries, for these products. It is obvious that the United States, while quite willing to admit Canada's raw materials to her markets, does not show the same willingness to admit a wide range of manufactured goods.

In order to prosper and to provide stable employment, in order to progress towards more efficient production methods and improved products, the manufacturing industry, Canada's largest employer of labour, needs access to ever-widening markets. Such progress is essential if Canadian industry is to avoid a situation where rising costs of production and distribution result in pricing itself out of not only its foreign markets but also the domestic market, and in all policies this must be a major consideration.

The Canadian Manufacturers' Association has the utmost faith in the industrial future of this nation and in the eventual restoration, through international action and amity, of peaceful and prosperous world trading conditions. In the long term, the earnest efforts of governments, international institutions, and private enterprise must be crowned with success, and indeed no one would

contend that the past few years are devoid of achievement. In devising additional means of meeting the ultimate objective, the Association respectfully submits the following considerations:—

(1) Steadfast support should be given to existing international organizations and institutions in their efforts to solve the problems of world trade and finance. The most capable government, business and financial leaders are engaged in these efforts within the existing frame-work for international discussion, and Canada, together with the other nations of the North Atlantic Treaty Organization, should continue to give the utmost co-operation and avoid national policies which may jeopardize their success.

(2) Continuing study should be given to the most effective application of the principle that Canadian materials and resources should be processed as far as possible in this country, and that Canadian exports should comprise the highest possible proportion of "value added by manufacture". This includes more extensive and intensive utilization in Canada of indigenous materials, fuel (especially natural gas) and energy, and the greatest possible economic diversification of industry.

(3) According to a survey conducted by the Association covering the fiscal year 1951, Dominion and Provincial income taxes paid by 733 companies with net sales over $5 billion amounted to two and one-half times the dividends paid to shareholders (which were themselves subject to income tax). For every dollar that manufacturing makes in net profit, Dominion and Provincial Governments take one dollar in income taxes. Some further relaxation of taxes would encourage modernization of plant and equipment and would go a long way towards improving Canada's competitive position in world trade.

(4) Canada has many industries, both large and small, which have developed under a policy of moderate tariff safeguards. Nevertheless, the Canadian customs tariff is at present a comparatively low tariff with an extensive free list. Under existing conditions, has not Canada gone as far as she can, safely, in giving access to her markets?

(5) Transportation and communication facilities within the country and those which connect its ports with foreign markets should be maintained and extended in such manner as to provide an adequate and reasonable service at reasonable rates. The importance of Canada's transportation policy remaining vital and flexible in all its ramifications, and, at the same tome, co-ordinating various transportation media, using each to its best advantage is, we believe, recognized and should be continued.

(6) A positive and progressive immigration policy should be designed to encourage the acquisition of new skills from abroad to assist in the building of a well-balanced industrial economy and to strengthen the domestic market.

(7) The present policy of making Canada better known abroad by all available means should be continued and extended. More emphasis should be placed on manufactured products, expanding industrial and export facilities, newly-found resources and trade policies.

(8) An extension of token import plans would be helpful in re-opening markets of the British Connomwealth and Empire to a limited extent.

(9) Consideration should be given to means of realizing closer trade relations with the British countries of the Caribbean whose economy is, in many ways, complementary to that of Canada.

(10) Programs of aid to under-developed areas such as the Colombo Plan deserve effective support and encouragement.

All of which is respectfully submitted, Mr. Chairman.

The CHAIRMAN: Thank you, very much. We are open for discussion and questions which you would like to ask Mr. Sheils.

Mr. SHEILS: Might I say, Mr. Chairman, that the reason for having this group of experts with me this morning is that on many of these questions I might feel that they could give a better answer than I could, and I would like to feel free to call on them.

The CHAIRMAN: Certainly, sir.

Hon. Mr. MCDONALD: Mr. Chairman, I think that the witness has given a very fine submission to the committee, and I think we are greatly indebted to the Canadian Manufacturers' Association.

I should like to ask the witness or some member of the delegation what has been done in working with comparable organizations of other western nations to achieve the ends which you have suggested.

Mr. SHEILS: You are speaking of other associations of manufacturers?

Hon. Mr. MCDONALD: Yes, I am.

Mr. SHEILS: Mr. Leach, would you care to answer that question? Mr. Leach is chairman of our commercial intelligence committee.

Mr. W. K. LEACH: Mr. Chairman and gentlemen, I can speak on that question through my experience with the Inter-American Council which is an organization comprising all countries of South, Central and North America. They hold their meetings in different countries. I had the pleasure a year ago of speaking before that group in Houston, Texas. It was sponsored by the National Association of Manufacturers of the United States. Their get-together is for the purpose of exchanging ideas and talking about trade between the different countries. The Canadian Manufacturers Association holds a membership in that organization. This past November they held a meeting in Lima, Peru. I had planned on going, but was unable to do so. Mr. Cathers of the Canadian Manufacturers' Association went down and spoke before that group. We have had many interesting letters from them. I have personally made friends amongst this group, and they seem to take pleasure in writing letters. The purpose is to extend trade throughout all the Americas. If there are any further questions on that point, I shall be glad to go further.

Hon. Mr. EULER: Mr. Chairman, the former speaker dealt with GATT—the general agreement for tariffs and trade. Do you think that venture has been successful? I know you have stated that we ought to continue all such relationships for the purpose of forwarding international trade. You have been following GATT's various meetings, and you have stated that many of the European countries have taken advantage of, I suppose, the escape clauses which have had the result of preventing imports into their country, and also into the United States. In view of all that, do you think that so far as you have gone, GATT has been successful?

Mr. SHEILS: We would be the first, sir, to say that GATT has had a reasonable measure of success. We would not in any way claim they have been entirely successful. Human nature being what it is, I think progress must be slow—

Hon. Mr. EULER: And politics being what they are.

Mr. SHEILS: And possibly some manufacturers being what they are—progress must be made slowly. However, we do feel that a measure of progress has been made. Perhaps Mr. Macdonnell would have something to say on that point.

Mr. MACDONNELL: Mr. Lang has better knowledge of that subject than I.

Hon. Mr. EULER: I note you say that GATT has gone as far as advisable. I am not trying to put words into your mouth with regard to the lowering of tariffs—

Mr. SHEILS: We feel that Canada has set an example to the other nations of the world in the prompt carrying out of promises made at the international meetings. When we have promised to do something we have done it. I am sorry that cannot be said for our neighbour immediately to the south.

Hon. Mr. EULER: By the way, has Congress ever ratified the GATT agreement?

Mr. SHEILS: I understand they have not. Part of the trouble in dealing with their representatives is that government officials attend meetings and make commitments which their government will not endorse when they go home.

Hon. Mr. CRERAR: I think power is given under the President to make these treaties.

Hon. Mr. EULER: But I am talking about GATT.

Hon. Mr. CRERAR: GATT is an outgrowth of the powers given to the President.

Hon. Mr. EULER: Has our parliament ratified that agreement?

The CHAIRMAN: I think we have.

Hon. Mr. EULER: But as I understand it the United States have not?

Mr. SHEILS: I can cite an instance which I think will answer both questions which you have brought up.

One of the principal points raised at GATT was the simplification of the very cumbersome United States customs procedure which operates far more efficiently than any tariff to bar goods going into that country and their customs policy can be changed at a moment's notice on pressure from a certain manufacturer. The American delegates at GATT solemnly promised that that condition would be corrected and that the U.S. customs procedure would be simplified and brought into line with other nations.

Hon. Mr. EULER: That would not require legislative action.

Mr. SHEILS: That has never been done; it has never been placed before the American Congress.

Hon. Mr. EULER: But that would not have to go before Congress. I know, for instance, a Canadian manufactured product can be exported to the United States, and when it reaches the border it is adjudged to be within a certain classification for tariff rating. Then two or three months later a customs official may say that classification was wrong, and the manufacturer owes more duty. That has the effect of curtailing trade with that country. I would think that would be a matter of administration rather than of legislation.

Mr. SHEILS: Two or three months ago the promise was made that the legislative body would correct that situation, but we are still waiting for them to do it.

Hon. Mr. TURGEON: They undertook to change that regulation, did they?

Mr. SHEILS: Yes, sir.

Hon. Mr. TURGEON: A definite undertaking.

Mr. SHEILS: Yes.

Hon. Mr. TURGEON: That would be part of the agreement reached?

Mr. SHEILS: Yes, that was at Geneva.

Another point about which we feel very keenly, and one of the factors inherent in GATT, is the use of embargo or quotas should be restricted to cases

where there is a monetary or an exchange crisis. That has not been the case in the United States. They have applied embargoes where there was no exchange problem.

Hon. Mr. MacLennan: In other words, if the Americans do not want to receive manufactured goods from Caanda they have ample machinery to keep them out.

Mr. Sheils: You have put it in a nutshell, sir.

Hon. Mr. Euler: My reason for saying that the correction of that would not necessarily require legislation was this: those restrictions, and obstacles—if you like—to the importation of Canadian goods into the United States are matters of regulation pretty largely, and regulations get altered very often in a certain way by officials rather than under any definite act of law.

Hon. Mr. Crerar: I think, Mr. Chairman, that the United States tariff is a monstrosity; and their law makes provision for all these regulations. That is, if my understanding of it is correct, their tariff laws define that in certain circumstances certain things must be done, and there is a conflict between not only the present Executive in the United States, but also the previous Executive, with Congress over the application of these laws; and I have no doubt that the representatives of the United States at GATT said, "We will try and get these things changed in the American law", but so far it has not been done; and their tariff law makes provision for these roundabout ways of protection—because that is all it is, reduced to its essentials.

Mr. Sheils: I think that is right, sir.

Hon. Mr. Crerar: It gives more authority to a Customs officer than our laws do, so that the Customs officer can place them in different categories, hold them up indefinitely, and so forth.

Hon. Mr. Euler: Under regulations. But who makes the regulations? The law is made by Congress but regulations under the law are not made by the Congress, but by the officials or what we in Canada call the minister. You pass a certain law in Canada, and the minister is given power to make regulations. He may perhaps table them, but he does not have to go to parliament to ratify the regulations.

Hon. Mr. Crerar: I may be wrong, Mr. Chairman—

Hon. Mr. Euler: We have both been in that position, senator.

Hon. Mr. Crerar: —but I think it will be found that even the President, with all his power, cannot vary these regulations. That is embedded in their tariff law, beyond his ability to touch; and there have been frequent discussions in the last few years over the need of revising those regulations.

Hon. Mr. Euler: But who makes those regulations?

Hon. Mr. Crerar: The regulations on that point are really made by Congress.

Hon. Mr. Euler: I don't think so.

Hon. Mr. Crerar: I think you will find that is so.

Hon. Mr. Turgeon: Coming back to this agreement under which the United States representatives agreed to change the regulations, and so forth: what is the date of the meeting when that agreement was made?

Mr. Sheils: I believe the first agreement was in 1946.

Hon. Mr. Turgeon: You refer to the last one, in which they definitely agreed to a change?

Mr. Sheils: That was this meeting with the British representative, Mr. Butler, when the question of freeing trade was discussed, and sterling convertibility, and so forth.

Hon. Mr. TURGEON: Just this spring.

Mr. SHEILS: Just this spring; and at that time the American officers, I believe from the Presidential office, assured the British that this long-deferred simplification would take place this year.

Hon. Mr. TURGEON: Could that be called—I am asking for information—an official undertaking?

Mr. SHEILS: Well, it all depends, sir, whether the officer in the President's office, under their set-up, has the authority to make the statement. He certainly made it.

Hon. Mr. CRERAR: It was a declaration, I think, that the President would try and get these changes effected.

Hon. Mr. TURGEON: That was while Mr. Butler was in Washington?

Mr. SHEILS: Yes, but the original promise was in Geneva in 1946.

Hon. Mr. EULER: Then they went to Havana and Annécy and Torquay.

Mr. SHEILS: Yes, sir.

Hon. Mr. EULER: And the last one was in London; is not that right?

Mr. SHEILS: I am not sure if there was a discussion in London on that or not. Torquay was the last.

Hon. Mr. CRERAR: Would you agree, Mr. Sheils, with the theory that is now becoming somewhat popular throughout the world, that if a country is going to export it must import?

Mr. SHEILS: Yes, sir, we do agree with that.

Hon. Mr. CRERAR: And it follows, then, that barriers in any country to the movement of trade back and forth across these countries are in contradiction of that?

Mr. SHEILS: Yes. I think we have proved that. We Canadians proved that by the amount of stuff we export per capita as compared with any other nation in the world.

Hon. Mr. EULER: Which is the greatest obstacle,—tariffs, or these other methods of restricting imports?

Mr. SHEILS: As regards our dealings with the United States, I would say the invisible barriers are the worst.

Hon. Mr. CRERAR: I agree with that.

Hon. Mr. EULER: The tariffs are high.

Mr. SHEILS: The tariffs are high, but one can figure what one must pay with a tariff. Supposing the tariff is 25 or 30 per cent, you do not try to export unless you can beat them by your efficiency in production and so forth, but the "invisible fellow" is hard to beat.

Hon. Mr. EULER: You meet him at the border?

Mr. SHEILS: Yes. You do not know you have met him until your agent in the United States says, "Where is that shipment you were sending me?" and you find that it is still at Buffalo.

Hon. Mr. CRERAR: I admit it is academic, but if it were possible to reach an arrangement with the United States for twenty-five years for a complete free exchange of the products of either country with the other, would that be a good thing for Canada?

Mr. SHEILS: In my opinion it would not, sir. I think it would completely destroy great segments of the Canadian manufacturing industry, and that we would lose a great deal of our identity and autonomy as a country.

Hon. Mr. CRERAR: Would that be due to the fact that you do not think that Canadian skills are less than American skills, but—

Mr. SHEILS: Not for a moment, sir. We have proof that they are not. But we have to think of this, that with a market of 150 millions, for instance, if you are going to bring out a new refrigerator and you have a tooling cost of fifteen or twenty thousand dollars, you can imagine the impact of that tooling cost on the production of refrigerators for 150 million people as against 15 million people.

Hon. Mr. CRERAR: I would like to follow that up. The Canadian manufacturer would have the assurance of twenty-five years of a market, not of 15 million people but of 170 million people, and he has the advantage of haul to get his merchandise over there,—which the United States fellow has not.

The CHAIRMAN: The distance.

Hon. Mr. CRERAR: The distance, yes. It is an academic question, but do you not think the Canadian manufacturer would have certain advantages over his American competitor, say in the matter of power costs; and so far as transportation is concerned the great bulk of the consuming population of the United States is closer to the manufacturing centres in Ontario and Quebec than British Columbia or Alberta is.

Mr. SHEILS: I still do not think it would be a good thing for Canada, sir.

Hon. Mr. CRERAR: I think you are a little too timid, Mr. Sheils.

Hon. Mr. CAMPBELL: I see another factor that would support your argument in that respect, and that is the differential between the internal taxes applicable to parts that go into the goods in the United States as compared with Canada. I am speaking now of sales and excise taxes.

Mr. SHEILS: That is a factor, unless the previous speaker was visualizing the abolition of all such taxes.

Hon. Mr. CAMPBELL: But those are internal taxes that I am speaking of.

Mr. SHEILS: Yes.

Hon. Mr. CAMPBELL: For instance, take the automobile. A large part of the differential between the price of an automobile in Canada and in the United States is attributable to internal taxes, is that not right?

Mr. SHEILS: Yes.

Hon. Mr. MACLENNAN: Some of it.

Hon. Mr. CAMPBELL: I was asking the witness whether he knew what that amounted to.

Mr. SHEILS: No, I would not like to quote figures on that. I do not know if any of the officers present would like to make a statement on that.

Hon. Mr. EULER: Here is another academic question, and if it is embarrassing to you you do not need to answer it. All these figures would be overcome if there was no political boundary line between the two countries. How about that?

Mr. SHEILS: I would not be in favour of that.

Hon. Mr. EULER: That is what I thought.

Mr. SHEILS: You are suggesting that the United States become our eleventh province, are you?

Hon. Mr. EULER: Or!

Hon. Mr. CAMPBELL: Mr. Sheils, just following up Senator Crerar's question, you are familiar with what happened in the agricultural implement industry where there was a complete elimination of tariff between the two countries?

Mr. SHEILS: I would say reasonably so. I am not in that industry and I do not know as much about it as I would like to.

Hon. Mr. CAMPBELL: That has worked considerably well for Canadian manufacturers.

Mr. SHEILS: I really do not know what the answer is there, but perhaps some of the officers know the story of that better than I do.

Mr. LEACH: I think that has also worked well for the manufacturers in the United States. In our town we have had some manufacturers who have brought their work up from the States to be done there, and we have gained possibly a little in that respect. Other than that, I do not know of anything.

Hon. Mr. TURGEON: I should like to ask one question in relation to Senator Crerar's inquiry about absolute free trade. Would the answer be more easily reached if the population of Canada was doubled?

Mr. SHEILS: I should think that would be a factor towards it. We are advocating increased immigration into Canada at all times for the purpose of building up the home market, and thus giving us a chance to improve our production costs by reason of having a higher home market. I may say that we do not like the fact that such a large percentage of our total export business goes to the United States because of the fickleness, if I may use the word, of their market.

Hon. Mr. CRERAR: Mr. Sheils, notwithstanding all their inconsistencies do you not think the United States is still moving into a position where it must become an importing country?

Mr. SHEILS: Undoubtedly, sir, in the field of raw materials, but they will not be willing to bring in fully-processed goods.

Hon. Mr. CRERAR: Take, for instance, agricultural implements. Thirty years ago when I was barnstorming around the country advocating the abolition of tariffs on agricultural implements, I was regarded as a very dangerous character. Many people thought I should be interned. However, in the course of a few years, practically all the duties were removed from agricultural implements. I think there may be one or two exceptions today. What was the result? I think our agricultural implement industry in Canada today is more firmly based than it has ever been. As a matter of fact, the manufacturers of agricultural implements have demonstrated that they could invade under those conditions the American market. I do not think that Jimmy Duncan would say for a moment that the Massey-Harris Company does not find the American market a valuable one. It is a very valuable market, and my point is that under these conditions I have faith enough in Canadian brains, initiative and ability that they could develop industries in this country which could compete with United States and, indeed, they would have some advantages in doing so.

Mr. SHEILS: I heard, sir, the same Jimmy Duncan advocating very strongly a month or so ago the increase of sales to Latin American markets because he thinks they are better than the United States market.

Hon. Mr. CRERAR: I believe there is in Canada, and with some reason, a pretty widespread feeling that the American market is not a dependanble one; that it is subject to the vagaries of Congress. That is true, but I think events are working inevitably against that in the United States, and I think it is a hopeful sign when you get people like the United States Chambers of Commerce, bankers associations, and investment dealers associations coming forward in favour of a liberalization of trade policies.

Mr. SHEILS: Yes, that is a hopeful sign.

Hon. Mr. CRERAR: I do not think there is any question about it, and it is important that we in Canada be perhaps a bit patient with some of these things because I am sure that time is working with us.

Mr. SHEILS: Since 1946 we have had an era of the carrying out of a promise, and I think we have shown reasonable patience.

Hon. Mr. CRERAR: I agree. I think that is to be commended. I only express the hope that you will continue in good works.

Mr. SHEILS: Thank you, sir.

Hon. Mr. Euler: Mr. Sheils, if the Canadian manufacturers were sure of a permanent American market of 150 million or 160 million people, in addition to their own, do you not think that in time, after adapting themselves to the larger market, they would be able to compete just as freely as the manufacturers in any individual states in the United States? The greatest fear in the minds of the Canadian manufacturers would be that in the interim many of them might be ruined.

Mr. SHEILS: I think a lot of them would be.

Hon. Mr. EULER: But if you had a permanency to that market, what would you say then? If a permanent market could be established, do you not think the Canadian manufacturers would be just as competent to cater to a market of 160 millions as would the American manufacturers?

Mr. SHEILS: I think they have proven their competency.

Hon. Mr. EULER: The diffiiculty would be the period of adjustment.

Mr. SHEILS: There would be a very grave difficulty in that period of adjustment. From past experience it would be a question as to whether we could feel there would not still be an upheaval in this type of restriction with any particular industry.

Hon. Mr. CAMPBELL: Mr. Sheils, in studying these problems have you attempted to classify any industries which might benefit from freedom of trade, and others that might be seriously affected by the elimination of tariffs?

Mr. SHEILS: No, sir.

Hon. Mr. CAMPBELL: Offhand, would you care to express an opinion?

Mr. SHEILS: I would not, sir. In preparing this brief we tried to keep away from that because, as you will appreciate, representing 7,000 manufacturers in almost every conceivable type of industry, we might easily get ourselves into a real schmozzle if we tried to say this industry would benefit and this other industry would not.

Hon. Mr. CAMPBELL: In answer to Senator Euler's inquiry to you, is it not true that if the markets of the United States were opened to Canadian manufacturers, many would not be able to take advantage of these markets without establishing plants in the United States?

Mr. SHEILS: A number would be so situated in Canada that they would have a very long haul.

Hon. Mr. CAMPBELL: Has it not been the practice of many United States companies to establish different manufacturing plants throughout the States so as to be in the heart of the population area?

Mr. SHEILS: Yes.

Hon. Mr. TURGEON: On page 9, item 1 of your brief, you say: "Steadfast support should be given to existing international organizations and institutions in their efforts to solve the problems of world trade and finance." Does that include, for instance, the international monetary program?

Mr. SHEILS: Yes, sir.

Hon. Mr. TURGEON: You are including that?

Mr. SHEILS: Yes, we are continuing to explore every means of support that should be given to those organizations set up, including GATT. We think GATT, although it has not made all the progress that we should like, is doing the best it can for a human organization.

Hon. Mr. MacLennan: There is one section here I do not understand, if you will excuse me. You say in your brief, page 10, "For every dollar that manufacturing makes in net profit, dominion and provincial governments take one dollar in income tax." They would have nothing left.

Mr. Sheils: We should have said, for every dollar we have left after we pay our taxes. If we make two dollars before taxes we pay one to the government and have one left.

Hon. Mr. MacLennan: Well, that is not bad.

Mr. Sheils: We have to pay our shareholders out of that dollar.

Hon. Mr. Crerar: Would you express an opinion on our taxation, Mr. Sheils, as to what effect it is having on the expansion of industry? In other words, may I put it this way, that industry requires to make savings out of its earnings in order to improve its plants, keep its plants modernized, and to make for more efficient production. Would you say the existing scale of taxation is detrimental to that?

Mr. Sheils: Yes, sir. I think that was admitted by no less a person than the Minister of Finance a year or so ago, when he said he did not think taxation could be maintained at its then level without detriment to our economy. The point we as manufacturers consider is something like this, sir. Taking an average of all the industries which we represent, it takes $8,400 to provide a job for one man, that is, in plant and equipment, and that plant and equipment, as you very truly said, must be kept modernized or else production costs go up and we are priced out of our market. That $8,400 is an average, I might emphasize. I was talking to the general manager of a taxable industry the other day, walking through the rows and rows of machinery and seeing one or two people in two or three or four rows of this mass of setups, I said, "What is the figure in your industry? My idea of an average is $8,400." He said, "In our industry it is three times that—the cost to provide a job for one man or one woman." So we feel, when governments are thinking of taxation programs which have to do with an industry that that is a figure they would do well to keep in mind.

Hon. Mr. Crerar: Have you any suggestion as to how the revenue could be replaced.

Mr. Sheils: No sir, I am not a tax expert.

Hon. Mr. Turgeon: In the revision of tariffs for industry, would you suggest that that class of industry should be kept particularly in mind? That is, do you think the question of cost for the maintenance of employment should be studied from the standpoint of various new industries, or on industries generally.

Mr. Sheils: I think that tariffs, sir, need to be applied having particular industries in mind. You could not have a flat tariff across the board.

Hon. Mr. MacLennan: No, but I meant in working out what tariffs should be, those industries which have a higher cost for employment should receive special attention?

Mr. Sheils: It would be compensated by every factor in the turning out of goods for production. Taking the taxable industry, percentage of labour costs per output might not be as high as in an industry which costs only $5,000 to provide the equipment per man.

Hon. Mr. Euler: You said a minute ago, in reply to a question of Senator Crerar's, that the high taxes in Canada do seriously, in your opinion, handicap industry. I think you said that?

Mr. Sheils: Yes.

Hon. Mr. EULER: Would you care to say that it would be in favour of lowering of taxes and leaving to the government ways and means by which that could be made up, or possibly by a reduction of expenditures? Would you care to give an opinion on that? Would you say taxes should be further reduced on production—the manufacturer's tax?

Mr. SHEILS: I would like to keep out of the separate part of your question, sir. But I do feel that the further reduction of taxation on industry would be beneficial to the economy, in that it would give the manufacturer more money to modernize his plant and equipment and bring it up to date.

Hon. Mr. HAIG: Mr. Sheils, this is a political question. Would you assume, first, to start out, that we need so much money to carry on the government of this country. Would you assume that?

Mr. SHEILS: Right, sir.

Hon. Mr. HAIG: Now, the second thing you have to assume is that he who makes money must ultimately pay the taxes. I do not think we need to argue about that, that income tax is based in that way. I have never heard of any other country that got away from that fact fundamentally. But the corporation tax has always worried me in this way, that if I put my money, if I have any, into investments in manufacturing, in a company, the government taxes the profits on my money first in the company, and they take about 50 per cent, and then they hand me the money and tax me again.

Mr. SHEILS: Right, sir.

Hon. Mr. HAIG: Or if I have my money into things, not manufactured, or not a corporation, such as lending money on city property, lending money on farm lands, they only tax me once on my net profit. Should there not be some change there, should not that basis of taxation be switched off the corporation? Let me point out that in England they do this—and I am subject to correction—I understand that in England the tax corporations give each shareholder a certificate in proportion to the number of shares that he owns, and so when he puts in his own personal tax he gets exemption to the extent that the corporation has already paid him.

Hon. Mr. EULER: We get 20 per cent here now.

Mr. SHEILS: We get 20 per cent here now, yes, after this year. We have been getting 10 per cent, but we get 20 now.

Hon. Mr. EULER: We will get it from the first of the year.

Hon. Mr. CRERAR: Yes, that is right, but that is only 20 per cent. I want 100 per cent. If 20 per cent is a good idea, is not 100 per cent a better idea?

Hon. Mr. CAMPBELL: It is 20 per cent off your tax.

Hon. Mr. CRERAR: But that is not a political question. What do you think? I am assuming that the government needs the money and you are willing to pay it.

Mr. SHEILS: I don't know how far I could go with you reasonably, sir, with regard to 100 per cent, because I do not know what the impact would be on the taxation revenue and what other steps the government might have to take to recover the money. But the manufacturers of the country would certainly be relieved and pleased to see that increase from 10 per cent to 20 per cent because of the very fact that you mentioned, people who have money and who want to put it into our manufacturing industries wonder why they should be taxed twice. It is certainly a step in the right direction, but I would not like to say how many steps in that direction should be taken.

Hon. Mr. HAIG: If 20 per cent is a good thing, why is 100 per cent not better?

Mr. SHEILS: Because I do not know what impact it would have on the revenues and what that would mean by way of other taxation.

Hon. Mr. HAIG: It would have no impact at all. The income taxpayer would have to pay more. I can put my money into mortgages and pay only one tax, but if I put it into industry at the present time, I have to pay double taxation.

Hon. Mr. EULER: Heretofore the government has allowed a 10 per cent credit on your dividend; now it has increased it to 20 per cent, and the government is losing that much.

Hon. Mr. HAIG: But they are catching it on the other side.

Hon. Mr. EULER: What do you mean by that?

Hon. Mr. HAIG: Production is growing all the time, and the same rates and percentages are maintained.

Hon. Mr. CRERAR: If Senator Haig is suggesting, Mr. Chairman, that the corporation income tax should be eliminated and the corresponding burden placed upon personal income taxpayers, I should like to think twice about that suggestion.

Hon. Mr. CAMPBELL: Mr. Sheils, is there not another way in which industry has been helped, and can be helped still further, to increase their plant deficiency and expand their operations, by a more liberal means of depreciation.

Mr. SHEILS: That is definitely a factor.

Hon. Mr. CAMPBELL: And that was a greater factor a few years ago, was it not?

Mr. SHEILS: Yes. I had intended to mention that when I was speaking of the necessity for the manufacturer saving some money to modernize his plant and equipment. The present rate of depreciation applied to the cost of a machine purchased ten years ago will not replace that machine today within the depreciation years. Of course, we cannot say that is the government's fault. The rate was all right when it started. But with the increased cost of that machine over the past ten or fifteen years, the depreciation does not come anywhere near replacing it, and we have to save enough out of profits to replace it.

Hon. Mr. EULER: Would you like to see the rates go back to the depreciation allowed over the war years, when you could write it off in two or three years?

Mr. SHEILS: I would like to see a higher rate of depreciation.

A study is now being made by an association of accountants—and I may say it is not inspired by the Canadian Manufacturers' Association; they are doing it entirely on their own—as to what changes industry must make in its accounting practices in order to compensate for the fact that current depreciation rates applied to the old value of machinery and plant does not leave the manufacturer with anywhere near enough money to replace it today.

Hon. Mr. CRERAR: I think that is self-evident.

Mr. SHEILS: The study is being made by a very authoritative group, and we are looking forward to what they have to say about it.

I should like to amplify my answer of a few minutes ago to Senator Haig. Mr. George, our Ottawa representative, says that he would be pleased to see this 20 per cent go up and up.

Hon. Mr. HAIG: I thought so.

Mr. SHEILS: I am probably the type who likes to take one blessing at a time; I was very happy about the 10 per cent going up to 20 per cent. But I see there are people in my association with more forward vision than I have.

Hon. Mr. TURGEON: Upward vision.

Hon. Mr. CAMPBELL: Assuming that the time will come when the dividend credit will be 70 per cent, would that not result in the shareholder making a greater demand for distribution by the company so as to get benefit for that credit?

Mr. SHEILS: They would be making more money because of the increased exemption. Why should they be asking us to give them more too?

Hon. Mr. CAMPBELL: I think you will find that if they could get dividends tax free, there would be a greater demand from the shareholders for more distribution.

Hon. Mr. HAIG: But they would pay their own taxes on that. For instance, I have some dividends from the Hudson Bay Mining and Smelting Company. Last year practically half of the profits of that company went to the government. Then the company distributed to me my share of the dividends, and I paid the federal government my tax on it.

Hon. Mr. CAMPBELL: But you are suggesting that the credit be increased from 20 per cent to 100 per cent, so that you will not have to pay taxes on dividends.

Hon. Mr. HAIG: The company will pay it.

Hon. Mr. CAMPBELL: Mr. Chairman, we seem to be at cross purposes. The benefits under the present act are that a shareholder may take 20 per cent credit off his total dividends, against taxation.

Hon. Mr. HAIG: Correct.

Hon. Mr. CAMPBELL: If we increase that percentage to 40 or 50 per cent, as will likely be done in the future years, it may have the effect of giving the shareholder his dividend tax-free. Whatever percentage is allowed by way of credit is taken off the tax, and is a direct benefit to the shareholders.

Hon. Mr. HAIG: But suppose I invest $100,000 in mortgages at 6 per cent. I get my interest income of $6,000, and I show that in my income tax return and pay tax on it. Whereas, if I had invested that same $100,000 in, say, Mr. Sheils' company and it earned $6,000, the dominion government would first take $3,000 of that $6,000 by way of corporation tax. I would get my $3,000, and pay my personal income tax on it. Half of the $6,000 has been paid out by way of 47 per cent corporation tax; then the balance is taxable in my hands. The 20 per cent credit allowed against the balance of $3,000 which I receive would give a benefit of $600, leaving $2,400 still to be taxed as personal income. So I may end up with something like $1,500. Whereas, as I have said, had I put the $100,000 into mortgages, it would have been taxed only once.

Hon. Mr. CAMPBELL: You are after the elimination of double taxation?

Hon. Mr. HAIG: I am arguing for the elimination of double taxation.

Hon. Mr. TURGEON: Is it not possible that if the government made dividends totally exempt from taxation, that as it required money it would have to increase the taxes against the corporation itself? It might happen that what the shareholder would gain on tax-exempt dividends he would lose by reason of reduced dividends the company could afford to pay.

Hon. Mr. EULER: It would not necessarily follow that the government would increase the tax on corporations.

Hon. Mr. TURGEON: They would have to raise it somewhere.

Hon. Mr. McDONALD: They might raise it on personal income, as Senator Crerar said.

Hon. Mr. CRERAR: That was not my suggestion. Senator Haig suggested that.

Hon. Mr. McDONALD: But you brought it out.

Hon. Mr. HAIG: But why should I be able to invest $100,000 in mortgages, get my $6,000 income and pay only one tax on it, when if that same amount of money was put into a company it would be taxed twice?

Hon. Mr. BURCHILL: We have to be practical about it: The fact of the matter is that even with the additional taxation, you are getting more money out of the Hudson's Bay than you are from the mortgage on residences.

Hon. Mr. HAIG: No, I am not.

Hon. Mr. CRERAR: I would suggest, Senator Haig, that the inclination of the manufacturing company is to include taxes as an expense, and to adjust his price accordingly.

Hon. Mr. EULER: Added to the cost of the goods.

Hon. Mr. CRERAR: I think the study of corporations would show that until the past year or so they have pretty well maintained their net profits, even in the face of heavy taxation. However, that would not justify the taxation. In my opinion, they are coming to a point where they can no longer do that.

Hon. Mr. HAIG: Certainly they cannot; that is why I raised the point.

Mr. SHEILS: This question of increased cost of machinery and plant makes the problem even more difficult. We should be able to make provision for replacement.

The CHAIRMAN: Are there any further questions?

Hon. Mr. PIRIE: Following up Senator Haig's question: he says if he invests $100,000 in a mortgage at 6 per cent it gives him a revenue of $6,000 on which he pays $2,000 in taxes.

Hon. Mr. HAIG: Provided my tax rate is 50 per cent.

Hon. Mr. PIRIE: Yes; that is an individual tax. If he invests $100,000 in Smelters they pay the tax of 47 per cent.

Hon. Mr. HAIG: Plus two.

Hon. Mr. PIRIE: But they do not tax you on any capital gain, if you happen to own some of the stock.

Hon. Mr. HAIG: They do not give any credit if I make a loss, either.

Hon. Mr. PRATT: That is true, but you can select your investment. If they make a capital gain you do not pay any tax on it.

Hon. Mr. HAIG: The same thing applies all through, about capital gains. That is another thing altogether.

Hon. Mr. EULER: You are just arguing that double taxation is wrong.

Hon. Mr. HAIG: The tendency of every adviser on investment who has any chance of advisement is to get into things where there is not the double taxation, if he can. Look at bonds. There is no double taxation on the bonds of a company. A company can issue bonds—Aluminum are paying 5¼ per cent. There is taxation. If I buy any stock I pay double taxation.

Hon. Mr. CAMPBELL: They do not have trouble selling the stock.

Hon. Mr. HAIG: But I can buy that on the public market today to yield me 5½ per cent.

Hon. Mr. CRERAR: I think Mr. Sheils has a further statement to make.

Mr. SHEILS: I would like to add to my reply to you some figures one of our officers has given me. The Manufacturers Association made several surveys of what we call a breakdown of the sales dollar between different types of expenses, ending up with the net profit before taxes, and then taxes on dividends and so forth. The first survey we made was in 1948, and it showed a profit of 6·2 cents on the dollar.

Hon. Mr. CRERAR: That is after taxation?

Mr. SHEILS: No, that was before taxation. The following year this figure dropped to 5·8 per cent—that was in 1949. In 1950 profits jumped to 7·1 cents, out of which 3·1 cents were paid in dividends and four cents were retained in the business to rehabilitate the plant and so forth. In 1951 the figure dropped to 5·8 cents, of which 2·3 were paid out in dividends, which again were taxed, and 3·5 cents were ploughed back into the business. So that, as you said, it is becoming increasingly hard to have any money to plough back into business, or have sufficient money to plough back into business. If it is so desired, that computation can be placed on the record. (See Appendix B to these proceedings).

Hon. Mr. CRERAR: I was going to suggest that you have it placed on our record.

Hon. Mr. EULER: Of course that is not the only place where there is double taxation. Take the sales tax. The sales tax is passed on by the manufacturer to, perhaps, the wholesaler, and he adds that on to his costs, and so the tax is paid on that. It is always cumulative; you pay tax on tax.

Mr. SHEILS: The question of the tax and other expenses being passed on by the manufacturer is something I would like to comment on briefly, if I may.

The CHAIRMAN: Yes.

Mr. SHEILS: That is a wonderful theory, and we would all love to do it 100 per cent. But you run into the question of competition from abroad, these days. I would venture to say that if taxes were raised today on textiles or the toy industry they could not pass on one cent to the public, because of the competition from abroad.

Hon. Mr. CRERAR: I quite agree with that. My remark applied to the conditions that existed when there was a general shortage of goods and it was not a question of price, but of getting the goods. But under the competitive conditions which have been steadily returning, that advantage disappears.

Mr. SHEILS: It does not always follow you can pass it on.

The CHAIRMAN: Gentlemen, if there are no more questions I want to thank Mr. Sheils and the gentlemen who are with him for coming here today and for giving us such a fine brief. It will, I am sure, be of use to us. We thank him also for his patience in answering all these questions. We want to thank you, one and all.

Hon. SENATORS: Hear, hear.

The Committee adjourned.

APPENDIX B

CANADIAN MANUFACTURERS' ASSOCIATION
(Incorporated)

1404 Montreal Trust Building,
67 Yonge Street,
Toronto 1, Ontario.

Circular No. 2476

MAY 13, 1952.

SALES DOLLAR BREAKDOWN RESULTS

Dear Sir,

On March 10th, the membership of the CMA was sent circular letter No. 2459 which asked help in an important undertaking—information that would help disprove the myth that industrial profits are excessive.

The response to our questionnaire was gratifying to an extreme. Following are the results of our survey in detail.

Canadian manufacturing industry's profits on each dollar of sales for the year 1951 averaged out at only 5·8 cents, which consisted of 2·3 cents paid out in dividends and 3·5 cents ploughed back into the business. These figures compared with 3.1 cents in dividends and 4 cents retained in the business of the 7·1 cents' profit on 1950's sales dollar.

Force to the figures is supplied by the fact that the CMA members responding to the profit questionnaire employed over 320,000 people in 1950 and over 335,000 in 1951 and had net sales of nearly four billion dollars in 1950 and over five billion dollars in 1951.

These CMA surveys began four years ago and were aimed originally at finding out what the true facts surrounding profits were. The public, according to reputable opinion surveys, has always thought that manufacturing profits were far higher than they actually are. Our findings over a period of four years have proved conclusively that profits were barely half of what the public thought a fair profit should be.

The first survey we did, which covered 1948, showed a profit of 6·2 cents. The following year, it dropped to 5·8 cents. In 1950, a year marked by lower corporate income taxes than last year, profits jumped to 7·1 cents, but last year—even though net sales were a record of five billion for the companies responding to our national questionnaire—taxes of all descriptions were higher and the sales dollar profit dropped back to 5·8 cents, the same as it was in 1949.

Further figures from the survey showed that the average number of shareholders over the two fiscal years of the companies replying to the questionnaire was 264,728 in 1950 and 271,474 in 1951.

Total investments of the companies in question amounted to $2,592,658,000 in 1950 and $2,827,729,000 in 1951.

Federal and provincial taxes on manufacturing income in 1950 were 4·9 cents out of each sales dollar, just 2·2 cents less than what the stockholders and the business itself received for the whole year's operations. Taxes in 1951 were not only higher but actually matched the profit of 5·8 cents in each dollar of goods sold. In other words, in 1951, for every cent industry made, the government took a cent in taxes.

We were criticized in some quarters in the past on the grounds that the accepted method of establishing a profit figure was on the basis of net worth. That question is open to discussion, but what we are trying to show is quite simple—the exact number of cents' profit the manufacturer makes on his sales dollar, and how little the profit affects prices.

On the back of this page is the complete breakdown of our survey of the manufacturers' sales dollar for the years 1950 and 1951.

Yours faithfully,

D. P. KEOGH,
Manager, Education Department.

J. T. STIRRETT,
General Manager.

W. E. WEAVER,
Chairman, Education Committee.

CANADIAN MANUFACTURERS' ASSOCIATION

Education Department

Results of Questionnaire on Breakdown of Sales Dollar for 1950 and 1951 Fiscal Years.

—	1950		1951	
	$	%	$	%
1. Net sales (that is, gross sales, less returns and allowances)	3,918,609,000	98·7	5,015,578,000	99·0
2. Other income	51,162,000	1·3	53,004,000	1·0
Total	3,969,771,000	100·0	5,068,582,000	100·0
3. Wages and salaries (all wages and salaries including management salaries, directors' fees, payments to employees for holidays and in connection with profit sharing or production incentive plans, unless such payments are distributed only upon retirement of employee or some similar basis, in which case they are to be included in 4.)	871,687,000	22·0	1,114,230,000	22·0
4. Employee benefits (payments to pension plans, group life, sickness or hospitalization insurance, workmen's compensation, unemployment insurance, medical services, cafeterias, welfare funds, 25-year clubs, etc.)	50,189,000	1·3	64,396,000	1·3
5. Materials (including raw materials, finished and semi-finished parts, materials purchased for resale, materials consumed in processing or assembly operations, and packaging and shipping materials; but not including shop and factory supplies to be included in 7.)	1,838,024,000	46·3	2,378,031,000	46·9
6. Excise and sales taxes (included in 1 above, remitted or to be remitted to Dominion Government)	116,476,000	2·9	176,237,000	3·5
7. Other expenses (including shop and factory supplies, power, water, municipal taxes, maintenance, repairs to buildings, machinery and equipment (not including salaries and wages or employee benefits included in 4 above), office, administrative and selling expenses not included above, including charitable donations and interest expense)	488,733,000	12·3	587,946,000	11·6
8. Depreciation	126,312,000	3·2	156,122,000	3·1
9. Taxes on income (Dominion and Provincial taxes on income)	194,344,000	4·9	297,675,000	5·8
10. Dividends (dividends declared on preference and common shares)	123,119,000	3·1	115,811,000	2·3
11. Retained in the business (that amount of the year's income not paid out in dividends)	160,887,000	4·0	178,134,000	3·5
Total	3,969,771,000	100·0	5,068,582,000	100·0
12. Number of employees (average over 12 month period of fiscal year)	320,361	....	335,560	....
13. Number of shareholders (average over 12 month period of fiscal year.)	264,728	....	271,474	....
14. Total investments (total assets less actual liabilities other than funded or long-term indebtedness)	2,592,658,000	....	2,827,729,000	....